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Administration's Blitz Hits Tokyo

The administration has been rather quiet about outstanding bilateral economic issues during the past two months as Japan prepared for the Diet election and then reshuffled political posts. Judging that the political scene in Tokyo has now returned to normal and that the time is ripe to press the Japanese government on concessions (see JEI Report 3B, January 20, 1984), a veritable blitz of U.S. officials has descended upon the Japanese government.

The list of issues on which the United States is now pressing Japan covers some long-standing problems and some new ones. Included are beef and citrus quotas, procurement policies by Nippon Telegraph and Telephone (NTT), communications satellites, value-added networks (VAN), computer software, policies toward structurally depressed industries, liberalization of capital markets, and a list of tariff-reduction requests. Following is a brief recapitulation of the demands on each item:

lumber products, but others - such as plywood and certain chemicals - were not. Much the same can be said in regard to requests from the EC. Cuts will be made in duties on perfume and handkerchiefs, but not on specific electronic goods or agricultural products as the Europeans had asked.

While both American and EC officials welcomed the newest measures, they criticized it as being insufficient and ineffective in counteracting the strong trade flow trends that favor Japan. They also point out that the Japanese are not being as altruistic as they claim. The Japanese elimination of tariffs on semiconductors is contingent on the United States and the EC doing the same, they note, a situation that could be of most benefit to Japan.

Japan counters that together with its previous market opening measures, the new series of tariff reductions represents the most significant steps any country has taken unilaterally in terms of encouraging free trade. Japan now has the lowest average tariff rates of any Western industrialized country, yet its trading partners are calling for structural changes in the Japanese economy to - as they see it - put everyone on equal ground. Many observers think that even if Japan's economy were opened to America's satisfaction, the trade balance would still be heavily in Japan's favor due to basic economic factors.

The tariff cut package must be adopted by the Diet before it can be implemented. It is expected to be submitted along with the budget when the Diet reconvenes on February 6.

Jon Choy

FY 1984 Car Export Quota Allocated

Deciding how many cars individual manufacturers can ship to the United States has been a yearly headache for the Ministry of International Trade and Industry (MITI) since Japan's export-restraint program went into effect in FY 1981. For the past three years, MITI has essentially divided the annual 1,680,000-unit shipment ceiling on the basis of each maker's 1979-80 share of the American market. While no one formula is likely to satisfy all companies, this system has drawn the fire of Japan's smaller exporters. Toyo Kogyo Co., Ltd. (Mazda), Fuji Heavy Industries, Ltd. (Subaru) and Mitsubishi Motors Corp. claim it discriminates against them and bolsters the already strong U.S. sales position of Toyota Motor Corp., Nissan Motor Co., Ltd. and Honda Motor Co., Ltd. Two other second-tier makers, Isuzu Motors, Ltd. and Suzuki Motor Co., Ltd., have also been pushing for a new allocation system so that they can implement their plans to become major suppliers to General Motors Corp.

This year MITI has to grapple with an additional problem: how to allocate the extra 170,000 cars Japanese companies will be allowed to export to the United States during the April 1984-March 1985 period (see JEI Report No. 43B, November 11, 1983). According to the Nihon Keizai Shimbun, the ministry has made at least a preliminary decision on FY 1984 allocations. GM's two affiliates will get just under 30 percent of the cars being added to the overall ceiling, while Japan's other smaller exporters will be given larger percentage increases than the top shippers. The shipment caps for Toyo Kogyo, Mitsubishi Motors and Fuji Heavy Industries will be expanded by margins ranging

from 8.3 percent to 8.9 percent, while Toyota, Nissan and Honda will receive an across-the-board increase of 6.8 percent.

Exporter	FY 1983 Quota	Tentative FY 1984 Quota	U.S. Retail Sales 1982	U.S. Retail Sales 1983
Toyota Motor Corp.	516,659	551,800	530,246	555,766
Nissan Motor Co., Ltd.	456,030	487,100	470,246	521,902
Honda Motor Co., Ltd.	348,631	372,400	365,865	350,670
Toyo Kogyo Co., Ltd.	159,282	173,500	163,638	173,388
Mitsubishi Motors Corp.*	112,584	122,400	106,177	132,021
Fuji Heavy Industries, Ltd.	70,014	75,800	150,335	156,840
Isuzu Motors, Ltd.	16,800	50,000	15,462	20,731
Suzuki Motor Co., Ltd.	0	17,000	0	0
Total	1,680,000	1,850,000	1,801,969	1,911,318

*Includes cars sold under the Chrysler nameplate.

General Motors, which had planned to import 80,000 to 100,000 mini cars a year from Suzuki starting this fall as well as up to 200,000 subcompacts a year from Isuzu, expressed disappointment with MITI's reported decision, but the company denied reports that the small Isuzu and Suzuki allocations may force it to scrap its import arrangements. Japanese exporters had no comment on their tentative FY 1984 allocations. It can be assumed, though, that they feel the MITI proposal is the best that can be expected, given the conflicting demands on the ministry.

Even with the ceiling on Japan's car exports going up to 1,750,000 in the April 1984-March 1985 period, tight U.S. supplies of top-selling Japanese models will again be the rule in the rebounding American car market. Retail sales of Japanese nameplates increased 6.1 percent in 1983 to just over 1.9 million units, but shortages put a lid on sales for many dealers. They will have a particularly hard time finding enough cars to sell in 1984's first quarter since a number of Japanese exporters shipped a disproportionately large share of their FY 1983 allocation early in the year.

Susan MacKnight

For Japan's Cabinet, a New Reporting Requirement

The Prime Minister's office has issued guidelines under which Cabinet ministers would disclose their outside income and personal assets to the public. The new requirements, which were drafted in response to public concern over government corruption, will go into effect by the end of January.

Specifically, ministers are to report the value and income from the following assets:

the Self Defense Forces (SDF), all of which seek increased spending to fulfill their respective service missions. That, JDA says, will require a fiscal 1984 allotment of Y2.94 trillion ($12.6 billion).

Prime Minister Nakasone has repeated promises to retain defense spending within 1 percent of GNP. A 5 percent increase in defense spending in fiscal 1984 would keep total defense spending between 0.98 percent and 0.99 percent, depending on salary increases to government employees. Personnel costs are the largest expense for the Self Defense Forces and significant cost-of-living increases could push up total expenses and bump them against the 1 percent level, particularly in fiscal 1985.

Mike Mansfield, the U.S. ambassador, met with Japanese government officials to urge more substantial defense spending increases. Japanese press reports suggested that Ambassador Mansfield implied that the close personal relationship between Prime Minister Nakasone and President Reagan could be jeopardized by the present defense stalemate. Mansfield called defense the most important element of U.S.-Japanese relations at this time.

American defense officials are certain to be disappointed by the budget increases, but not necessarily because of concern over spending levels as such. The Department of Defense believes that Japan's fulfillment of certain roles in the Pacific region takes precedence over budgetary figures per se. However, it is also clear that the department considers current spending levels insufficient to meet those demands. While the ultimate issue is still one of spending, the Defense Department approach emphasizes the broader policy concern of fulfilling regional security aims.

Ultimately, Prime Minister Nakasone will have to reconcile the JDA/MOF dispute. In light of the statements he has made to domestic and international audiences, it is unlikely that he will be able to increase the MOF figure significantly. Whether or not he will be able to delay further the inevitable confrontation between the 1 percent barrier and defense policy goals remains to be seen. Some observers suggest that the prime minister has left himself room to maneuver by promising to "respect" the 1 percent limit "to the greatest extent possible", implying that he will not restrict future increases as severely as he must now.

Michael Chinworth

Japan Runs Record Trade Surplus in 1983

According to figures released by the Ministry of Finance, Japan ran a record trade surplus of $20.5 billion (on a customs clearance basis) in calendar year 1983. Last year's surplus, which is nearly three times 1982's $6.9 billion level and easily tops the previous record of $18.2 billion set in 1978, resulted from a 5.8 percent increase in exports combined with a 4.1 percent drop in imports. Contributing to the $146.9 billion (f.o.b.) export performance were shipments of office equipment, which jumped 63.8 percent over 1982, electronic components, which rose 38.9 percent, and video cassette recorders, up 22.3 percent. While exports of passenger cars gained 6.4 percent on an f.o.b. basis over the year before, the volume grew only 0.7 percent with

most of the increase coming from a rise in the average unit value of 8.5 percent. Clearly, the numerous restraints on exports of Japanese cars are holding down their numerical growth, and equally clearly it is the consumer who is paying the price.

The primary factor in accounting for the drop in imports to $126.5 billion (c.i.f.) from $131.9 billion in 1982 was the fall in both the price and quantity of petroleum imports which constitute about one-third of the total. Imports of crude and partially refined oil fell 13.4 percent, representing 207 million kiloliters, slightly under 1982's figure and 28.5 percent less than 1973's record 290 million kiloliters. Reflecting a drop in steel exports of 17.9 percent, imports of iron ore fell 13.3 percent and coal imports shrank 15.6 percent over 1982.

Japan registered record trade surpluses with individual trading partners as well, most notably with the United States ($18.1 billion) and the European Community ($10.4 billion). Exports to the United States totaled $42.8 billion, a 17.9 percent increase over 1982, and imports reached $24.7 billion, only 2.1 percent above the year before. Leading the export surge were shipments of office equipment (including computers), up 86.8 percent, VCRs, gaining 72.9 percent, electronic components, rising 52.3 percent, and automobiles, which recorded an increase of 12.9 percent over 1982. On the import side, the biggest gain was registered in aircraft purchases (93.4 percent), with sizable increases in corn and soybean deliveries also reported.

The pattern of exports to the EC, which totaled $18.5 billion, followed similar lines except that VCR deliveries slipped. Due to a voluntary restraint agreement reached in February 1983, VCR exports to the EC fell 16.3 percent, due to both price and quantity declines. In setting an 8.6 percent export increase, the star performers were once again: office equipment (61.9 percent), autos (26.4 percent), and electronic components (20.9 percent). Growth of imports from the EC kept close pace with exports, recording a 7.4 percent increase to $8.1 billion.

The ministry attributes the record export performance in most part to the recovery of the U.S. economy in 1983 combined with a strong dollar. The quarterly pattern of U.S. gross national product growth paralleled the quarterly pattern of Japan's trade surplus with a one quarter lag:

Quarter	U.S. GNP*	Japan's Trade Balance**
1982: IV	- 1.3%	$2,166.2
1983: I	2.6	1,737.8
II	9.7	5,718.5
III	7.9	6,911.0
IV	4.5	6,087.2

*percentage change from preceding quarter, seasonally adjusted annual rate
**in millions of dollars

While the U.S. economy is certainly not the only influence on Japan's trade balance, it is a strong factor accounting for 29.1 percent of Japan's

total trade in 1983. In addition to this direct link, the American economy was sufficiently strong to stimulate Southeast Asian economies, boosting their trade with Japan. Japanese exports to the region totaled $18.5 billion, up 8.6 percent, while imports fell 6.5 percent to $28.0 billion, helping to set record trade figures for 1983. Japan's strong performance vis-a-vis the EC is a bit more puzzling given the Community's very sluggish 1983 GNP growth of around 1 percent. Three factors seem to be at work. First, the U.S. recovery spilled over into the Community's economy, getting an extra boost from the high dollar. Second, consumer spending in West Germany and Great Britain began to revive in the last quarters of 1983. And finally, 1982 was a poor year for EC-Japan trade, inflating the 1983 changes.

1984 promises to be another banner year in the history of Japanese trade. Things are getting off to a strong start with exports recording a 21.0 percent increase in December over the same month of the previous year, and imports jumping 12.5 percent in the same period. As domestic demand continues to revive in Japan, imports should gain ground on exports, which will continue to grow at a healthy pace. According to Japan's Economic Planning Agency, imports will grow 8.8 percent to $124 billion and exports will rise by 6.8 percent to $158 billion in fiscal 1984 (which begins April 1). This will still leave a huge trade surplus of $34 billion in FY 1984 as opposed to $23 billion in FY 1983. Despite this severe trade imbalance, the yen is not likely to show any drastic changes; it will certainly not depreciate, but any appreciation will be slow and drawn-out. As Japan continues to liberalize its capital markets, the trade balance will have a smaller and smaller effect on the yen's international position. With forecasts of this magnitude, however, the trade surplus will continue to be a central political issue between Japan and its trading partners.

Jon Choy

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Special Notice

Due to unforeseen circumstances, JEI REPORT NO. 4A will not be sent this week.

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